

Members

Rep. John Frenz, Co-Chairperson
Sen. Luke Kenley, Co-Chairperson
Rep. Eric Turner
Sen. Lindel Hume
Sandra Bickel
Joe Breedlove
Daniel Clark
Amy Corsaro
Deborah Driskell
Les Fox
Phil Hoy
S. Michael Hudson
Mike Karickhoff
Patrick Kiely
Joseph Loftus
Joseph Minnis
J. Daniel Philpott
Bill Roach
Jason Shelley
Don Strietelmeier
John Taylor
Thomas Taylor
Ernie Wiggins
Louis Zickler



PROPERTY TAX REPLACEMENT STUDY COMMISSION

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MEETING MINUTES¹

Meeting Date: August 16, 2004
Meeting Time: 1:00 P.M.
Meeting Place: State House, 200 W. Washington St., 404
Meeting City: Indianapolis, Indiana
Meeting Number: 5

Members Present: Rep. John Frenz, Co-Chairperson; Sen. Luke Kenley, Co-Chairperson; Rep. Eric Turner; Sen. Lindel Hume; Joe Breedlove; Daniel Clark; Deborah Driskell; Les Fox; Phil Hoy; S. Michael Hudson; Mike Karickhoff; Joseph Loftus; Joseph Minnis; J. Daniel Philpott; Jason Shelley; Don Strietelmeier; Thomas Taylor; Ernie Wiggins; Louis Zickler.

Members Absent: Amy Corsaro; Patrick Kiely; John Taylor; Bill Roach; Sandra Bickel.

¹ Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

I. Call to Order

Rep. John Frenz, Co-Chairperson, called the meeting to order at 1:10 p.m.

Rep. Frenz explained that the purpose of today's meeting is to begin the process of formulating the Commission's recommendations to the General Assembly. Out of the Commission's previous meetings and discussions, nine ideas for recommendations in particular merit further discussion. The discussions of these nine ideas form the agenda for today's meeting. See Exhibit A.

II. Discussion of the Possible Recommendations

A. Replacement of 50% of the Property Tax Levy

Rep. Frenz asked Jim Landers, Fiscal Analyst for the Commission, to give an overview of Exhibit 1, which presents several pages of data on one scenario for increasing sales and income taxes in order to accomplish a 50% reduction in property taxes. Mr. Landers concluded by emphasizing that the lion's share of the replacement revenue in this particular proposal would come from implementing a broad sales tax on services.

Co-Chairperson Sen. Luke Kenley stressed that it may not be possible to accomplish a reduction of 50% in property taxation. But one thing the Commission may want to think about, he said, referring to a point made at an earlier meeting by Commission Member Patrick Kiely, is developing recommendations about key hot spots in the law that appear to be the subject of recurring complaints from taxpayers. Sen. Kenley expressed his belief that it would be fairly straightforward to extrapolate from a 50% reduction package, however that might be put together, to reduction packages of 75% and 100%.

A discussion of a sales tax on services ensued. The discussion touched on questions about the competitive effects on Indiana firms, opposition from businesses not now required to collect sales tax, and those groups of taxpayers most likely to be adversely affected by a sales tax on services.

Mr. Hudson suggested that the Commission take a 50% reduction in property taxes as a given and then ask the Legislative Services Agency (LSA) staff to develop an analysis of the consequences.

Sen. Lindel Hume brought the discussion around to revising the income tax system. Sen. Hume emphasized that it is important to look at the ability to pay in altering the income tax rates. He expressed his feeling that Indiana should consider putting a graduated income tax rate in place. One simple way to do that, he elaborated, would be to construct Indiana's income tax as a straight percentage of the dollar amount of a taxpayer's federal tax liability. Since the federal income tax rate is graduated, the State of Indiana would be imposing an income tax with the characteristics of a graduated rate. The tax would be also be an extremely simple one to administer.

B. Replacement of the Business Personal Property Tax Levy

Rep. Frenz turned to the second item on the agenda, replacement of the business personal property tax levy. He asked Mr. Landers to give the Commission an overview of Exhibit 2.

The Commission discussed the use of some form of business income tax to replace the

business personal property tax.

C. Circuit Breaker for Homeowners

Sen. Kenley introduced the idea of a so-called property tax circuit breaker for homeowners by referring to Exhibit 3. Mr. Landers discussed this Exhibit briefly for the Commission.

Sen. Kenley talked about constructing a circuit breaker statute to operate on a statewide basis versus a statute that would operate as a local county option.

D. Farmstead Proposal

The discussion turned to the proposal concerning a farmstead credit option. See Exhibit 4. Sen. Hume described, and answered questions concerning, a bill introduced in the previous session that would have created a farmstead credit had it been successful.

Sen. Kenley recognized Katrina Hall of the Indiana Farm Bureau and opened a conversation on the Farm Bureau's stance with respect to a farmstead credit. Ms. Hall's response characterized the Farm Bureau's position to be, generally speaking, that efforts should be made to reduce the amount of the permanent levies as apposed to adopting mechanisms to shift the tax burden from one group of taxpayers to another.

E. Review of the Assessment Manual

Sen. Kenley spoke briefly about a proposal to review the assessment manual that assessors throughout the State use to assess property. He pointed out that the Department of Local Government Finance produced the latest version of that manual. The proposal here would be to have the General Assembly review that manual closely. If that review reveals that changes to the assessment manual are called for, then the General Assembly should respond with appropriate legislation.

F. Cost of Government Report

Sen. Kenley went on to introduce Exhibit 5, which describes the idea of a cost of local government report. He referenced two states that produce this kind of report: Minnesota and Virginia. In addition, he noted that the Minnesota format does not make a distinction between local and state government, but the Virginia report breaks down the cost figures by governmental unit.

The ensuing discussion included questions about the cost of producing such a report, the problems of equalizing data for the purpose of comparing the performance of one governmental unit with another, and the State's current ability to gather the necessary information.

G. Statewide Database on Sales Disclosure Forms

Exhibit 6 reproduces the current Indiana Code section that requires county assessors to transmit real estate sales disclosure forms to the Department of Local Government Finance, among other things.

There was brief discussion on the possibility of imposing some sort of real estate transaction tax on buyers, sellers, or both, which could be in the form of a flat fee or some percentage of the sales price.

H. Review and Collection of All Bond Information

Exhibit 7 briefly describes a proposal to establish a centralized statewide database of bonds issued by local units of government.

I. Administration of the Assessment System

Exhibit 8 briefly describes a proposal to eliminate township assessors and to centralize the assessment function under elected county assessors subject to the significant control of a State assessor.

III. Assignments for Commission Members

Rep. Eric Turner suggested that the Commission proceed by developing a simple-to-use computer program. The program would be something that legislators could use to explore different sorts of property tax replacement options, given a specified percentage of property tax reduction.

Commission member Thomas Taylor suggested that the Co-Chairs challenge each member of the Commission to put together a proposal for the next meeting showing a mix of taxes that correspond to a 50% reduction in property tax. In addition, a member could include in his or her proposal any of the other ideas discussed at today's meeting.

Co-Chairs Rep. Frenz and Sen. Kenley agreed to Mr. Taylor's suggestion. Sen. Kenley said that they would send a memo by email to each member of the Commission later in the week putting the assignment in writing.

III. Next Meeting Date

The Co-Chairs set the next meeting date for Wednesday, September 15 at 1:00 P.M.

IV. Adjournment

The Co-Chairs adjourned the meeting at 3:00 P.M.